SB 437
and
Electric Choice

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Overview

1. Provisions of SB 437 will eliminate Electric Choice.

2. Results show that Electric Choice in Michigan has been successful.

3. The compact of 2000 – opportunity for Electric Choice for all in return for financial protection for utilities – has not been honored.

4. There is no financial or reliability crisis that demands urgent changes to Electric Choice.

5. Current industry structure of "collective reliability" eliminates any reliability issue from customers switching.

6. Misinterpretation of "energy independence" can cost Michigan citizens billions of dollars.

1. Provisions of SB 437 will eliminate Electric Choice.

- Applies a "one and done" hurdle to customers opting for Electric Choice.

- Discriminatory treatment of suppliers: in-state utility AESs vs. out-of-state alternative energy suppliers.

    - applies standards to AESs that make no commercial business sense – ex. "prepayment" of contracts.
    - Michigan cannot, without violating the Commerce Clause, discriminate against out-of-state energy providers.
        - Judge Posner, *Illinois Commerce Commission* v *FERC*, 721 F.3d 764 (2013)

- Ignores the fact that all customers in MISO – whether utility or AES customers -- receive exactly the same supply/demand reliability.

- Ignores the fact that MISO serves all customers using all resources – "collective reliability" since 2005.

2. **Results show that Electric Choice in Michigan has been successful.**

Category: "Electric Choice Numbers"

ANSWER	• QUESTION
15 years	• How long has Electric Choice existed in Michigan?
116,000,000,000 kWh	• How many kilowatt-hours have been bought through Electric Choice?
$1.1 Billion	• What are the cumulative savings for Michigan businesses and schools from Electric Choice?
No	• Are utility full-service customers subsidizing Electric Choice?
Perfect	• What has supply/demand reliability been since the start of Electric Choice?

3. The compact of 2000 – opportunity for Electric Choice for all in return for financial protection for utilities – has not been honored.

- Utilities were compensated for potential market losses and risk assumed on the basis of 100% of customers moving to Electric Choice.
- Recovery of net stranded costs and securitization of above-market generation facilities protected utilities from competition.
- Electric Choice customers have paid $550 million of stranded costs and securitization (including interest) for utility generation facilities and have received zero services from these facilities.
  - CE: $82.8 M securitization
    $39.9 M stranded cost
  - DTE: $386.2 M securitization
    $43.6 M stranded cost
- Electric Choice was limited to 10% in 2008, but no change was made to utility compensation.

4. There is no financial or reliability crisis that demands urgent changes to Electric Choice.

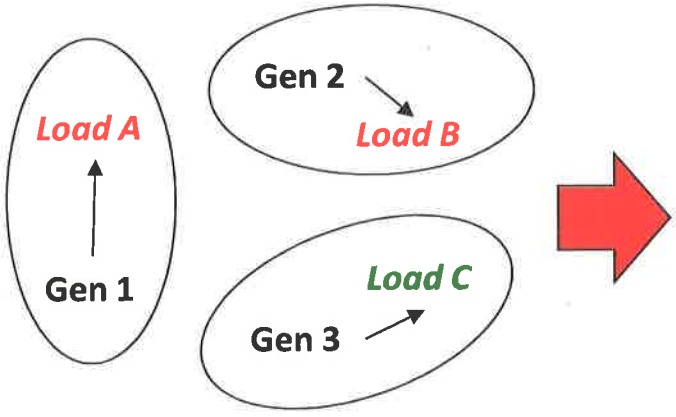
- The so-called "shortfall" for 2016 turned out to be a gross misinterpretation of a MISO standard report to the North American Electric Reliability Council (NERC).
- In the 2015 MISO auction, lower Michigan (Zone 7) had a surplus and exported 837 MW of capacity to other zones.
- There is no forecasted "shortfall" in MISO "for the foreseeable future," according to MISO and the MPSC, respectively.
  - 2015 OMS MISO Survey Results; MPSC Order U-17751 (5-year Capacity Plans), July 23, 2015
- MISO's projected, nominal shortfall for 2020 of 1.8 GW excludes 25 GW of planned resources, according to MISO.
- MISO's standard report of excess/shortfall in zones excludes the effect of transmission in/out of the zones, worth $ billions to Michigan customers.

5. Current industry structure of "collective reliability" eliminates any reliability issue from customers switching. All resources serve all load.

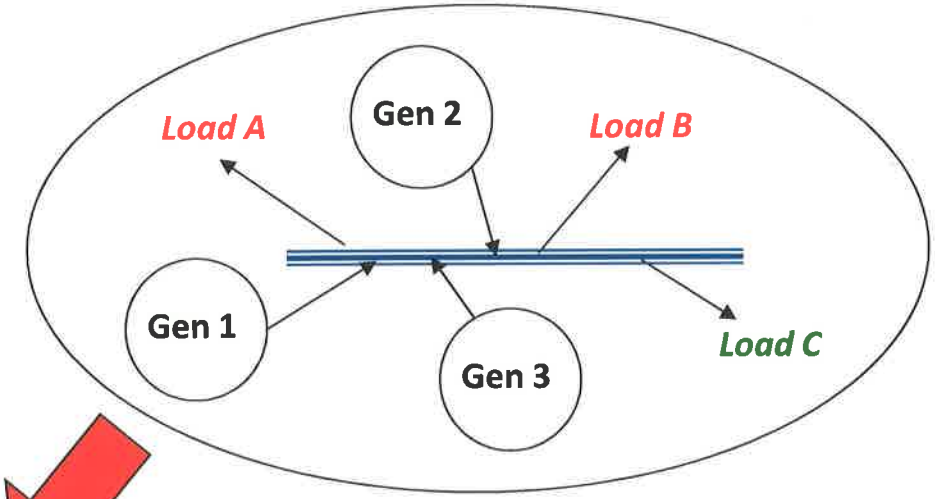
"Collective Reliability" via MISO Pool

"Our generation serves our customers" is an obsolete statement, as of April 2005.

Before April 2005



Current Industry Operation



Therefore, each Load Serving Entity (LSE) is equally reliable on a generation basis.

Switching customers don't affect reliability.

A customer receives the same reliability no matter if a utility or AES serves it, and no matter where the utility's or AES's capacity is located.

Collective Reliability & Switching

Operational Factors Affecting Reliability	*Regulated Service*	*Electric Choice*	*Difference?*
• Generation Capacity & Reserves	• Provided by local utility to meet MISO requirements	• Provided by AES to meet MISO requirements	• *Identical quantity*
• Dispatch of Regional Generation	• Controlled by MISO. All gen serves all load.	• Controlled by MISO. All gen serves all load.	• *Identical dispatch*
• Transmission Service	• Provided by MISO	• Provided by MISO	• *Identical service*
• Local Delivery Service	• Provided by local utility without discrimination.	• Provided by local utility without discrimination.	• *Identical service*

There is no physical change if a customer switches from Supplier A to B.

- **Generation, dispatch, load, power flows are the same.**
- **MISO transfers capacity credits. Financial responsibility changes.**

6. Misinterpretation of "energy independence" can cost Michigan citizens billions of dollars.

- MISO serves all load using all resources. Everyone receives the same supply/demand reliability.
- Transmission capability among zones greatly reduces the amount of generation capacity needed for all zones.
- "Energy independence" ignores the value of the transmission system.
- "Energy independence" will result in Michigan overbuilding generation by thousands of MWs. This will cost billions of dollars for no additional reliability benefit.
- Stakeholders, including Michigan utilities, exert strong influence on MISO rules.

Summary

1. THERE IS NO SHORTAGE OF CAPACITY IN MICHIGAN

2. SB 437 WILL END RETAIL ELECTRIC COMPETITION FOR THE REMAINING 10% OF CUSTOMERS THAT ARE ON RETAIL OPEN ACCESS.

3. PASSING SB 437, AS IT IS CURRENTLY WRITTEN, WILL NOT GUARANTEE THAT NEW GENERATION WILL BE BUILT IN MICHIGAN

4. THE RETAIL COMPETITIVE MARKET DOES NOT HAVE TO SUFFER HIGHER CAPACITY BURDEN STANDARDS IN ORDER FOR UTILITIES TO BUILD NEW GENERATION.